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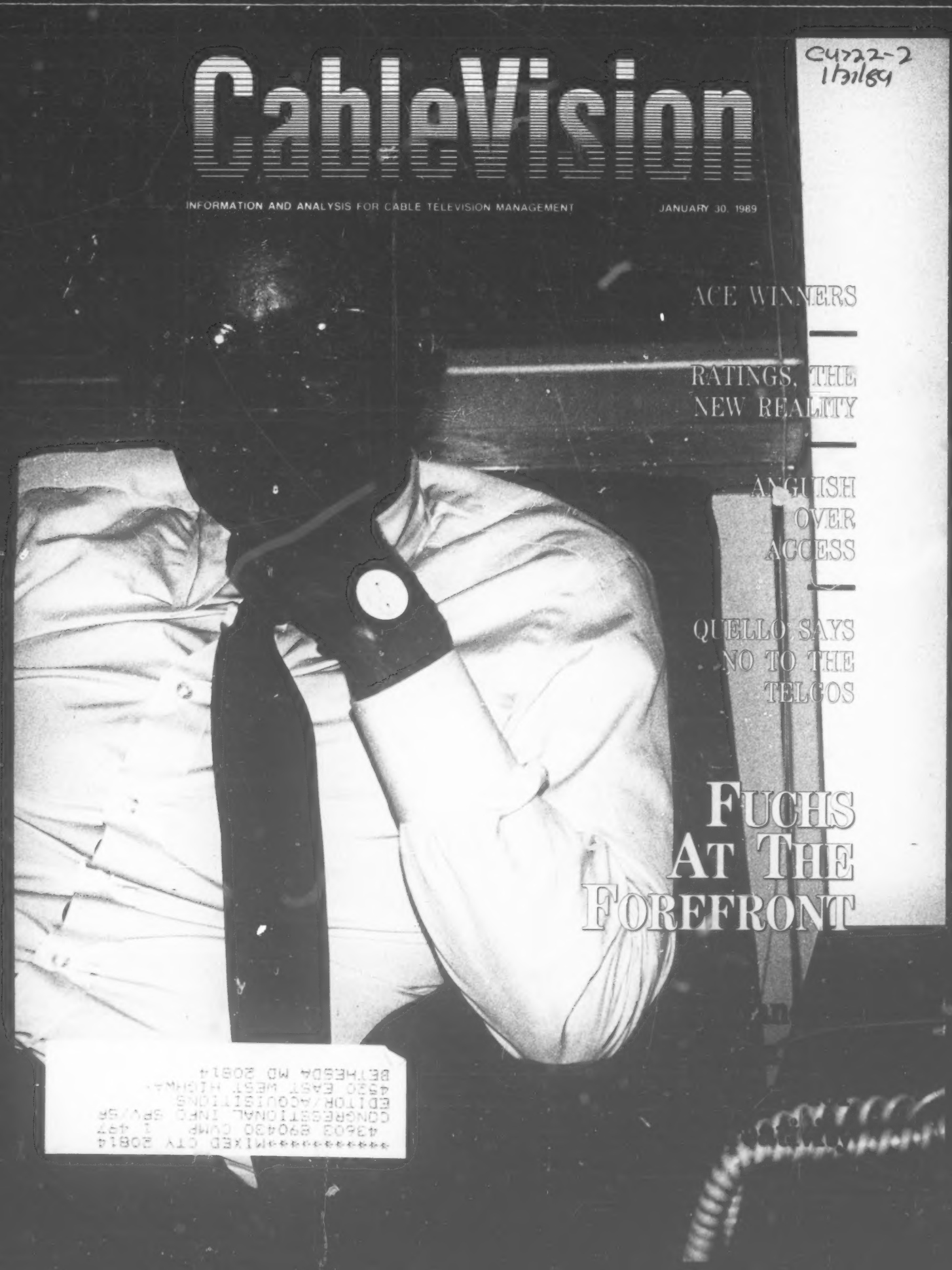
INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

JANUARY 30, 1989



ACE WINNERS

RATINGS, THE NEW REALITY

ANGUISH OVER ACCESS

QUELLO SAYS NO TO THE TELCOS

FUCHS AT THE FOREFRONT

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HBO again dominated the Network ACEs—no news there—but this year the type and quality of the awards demonstrate the network's growing maturity.

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WHAT'S A CHANNEL WORTH?

Type of Service	Contribution to Net Operating Income
Local Broadcast	$3.00 - 5.00
Pay	1.00 - 4.00
Superstations	.30 - .50
Basic Cable	.10 - .40

Source: United Cable Channel Study; BBC

Relating ratings to ROI

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ABP BPA

The unsure reality of ratings and value

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By Wayne Friedman

WHAT'S A CHANNEL WORTH?

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A paradox arises when cable operators speak about the value of individual channels on their systems. On the one hand, operators concede that broadcast stations command the lion's share of viewing, and that if those channels were dropped a system might lose a significant number of subscribers. But on the other hand, operators still contend that cable programming is the reason people buy cable, and not simply for clear reception of over-the-air signals.

Operators only recently have begun assessing the value of channels, in large part because of traditional regulatory restraints in the form of must-carry rules and, significantly, limited channel capacities. One such attempt at determining the performance of particular channels has come in a model created by Nimrod Kovacs, vice president of marketing and programming at United Cable, and a study by Bortz Browne Coddington.

In structuring a model that could guide system managers when mulling lineup changes, Kovacs found that, in terms of cash flow per subscriber, broadcast affiliates contribute the most value, followed by independent stations and pay television in a tie for second place. In the third spot are what Kovacs calls first-tier basic channels: ESPN, WTBS and MTV. Fourth position is occupied by second-tier basic channels such as TNN and Lifetime. In fifth position are the home shopping services and The Weather Channel. In sixth spot are the local origination channels and alphanumeric services. Kovacs, who first unveiled his research at last year's CTAM convention, declines to reveal the actual worth of each channel under his model.

But these value rankings aren't etched in stone, says Kovacs, and often will be altered by such factors as peculiar local interests, the number of local avails, co-op marketing revenue, license fees, copyright costs, political considerations and other influences. "It's really a guide when to reshuffle the lineup. It's not a hard and fast rule," he says of his model, which closely mirrors each television venue's ratings.

An average $25 a month cable bill was used for this model. This multiplied by an average 35 percent system cash flow rate yields $9 in cash flow per sub per month. This then is broken down according to a value assigned to each channel; broadcast networks accounting for the largest piece of the cash flow pie, LO channels the smallest.

Kovacs' model mimics consumer perceptions of the worth of over-the-air stations in terms of ratings. Based on that perception, it follows that if cable systems couldn't or refused to carry broadcast affiliates or independent stations, they wouldn't get many subscribers. Further to that point, Howard Horowitz, president of Horowitz Associates, a New York cable consulting firm, reiterates a factor often mentioned in surveys of cable customers: "(Cable service is) valuable because of convenience and reception."

Indeed, if cable systems no longer carried off-air signals, Marc Nathanson, president of Falcon Cable Television, believes they would lose 50 percent of their pay and basic customers and around 70 percent of basic-only subscribers.

There are few doubters among cable executives that ratings have become an increasingly important element in determining value, but at the same time some cable services that will never aspire to big numbers can't be dismissed. "There are two related but separate strategies," says Edward Bennett, executive vice president of Viacom Cable. "On the one hand, we are looking for high-rated, mass appeal programming, which is a natural evolution of the business.

> 'We can't get away from the fundamental value of what cable continues to be... and part of that is producing high quality programming that gets lower ratings.'
>
> —Ed Bennett, executive vice president, Viacom Cable

On the other hand, we can't get away from the fundamental value of what cable continues to be... and part of that is producing high quality programming that gets lower ratings." This last point can also pertain to local stations. Rod Thole, executive vice president of Heritage Communications, says even badly-rated independents probably wouldn't be banished.

Although most recognize that broadcast affiliates garner more than half of the total-day audience, and that independents attract an additional 16 percent of viewing (not including superstations, which draw around 30 percent), operators by and large don't translate those ratings into actual dollars per sub. Nathanson believes that a typical $14 a month package of basic or bonus-to-basic channels would not be reduced in price if cable systems didn't carry local stations. "Cable is the biggest bargain there is," says Nathanson, who says he would price cable the same without off-airs. United's Kovacs would do the same.

So, although perhaps 70 percent of the viewing goes to over-the-air stations, to some operators those stations aren't worth a proportional share of the monthly cable bill. Why? Because, cable executives contend that, given that the population can receive a wealth of off-airs without cable, subscribers are paying almost all their dollars for cable channels.

"From a marketing point of view, you are not delivering those (broadcast channels), you are giving those (channels) away," says Horowitz. He figures that, at most, off-air stations might be worth $2-$3 in a $14 cable package. The value of off-airs, then, is the foot in the door. "You can't get in the home unless you have them," he says.

Kovacs' model and a Bortz Browne Coddington survey so impressed Preston Padden, president of the Association of Independent Television Stations, that he cited some BBC data in a presentation to the U.S. Telephone Association, a potential entrant into video delivery. The BBC study attempted to relate categories of channels to net operating income for a cable system. The study assigns a value of $3-$5 to broadcast network affiliates and independent stations, $1-$4 to pay TV, 30-50 cents to superstations and 10-40 cents to basic services.

This new focus by cable operators in scrutinizing ratings arises primarily as a means of evaluating their suddenly escalating costs of carrying some basic cable networks. But to do this completely and accurately, broadcast stations must be included in the mix. Nathanson says he longs for the day when ratings could easily and cheaply be measured on a system-by-system basis. Then he could more closely relate those ratings to cable network license fees.

The increasing importance of ratings has caused some cable executives to reassess the factors they consider when making up the basic lineup, particularly in deciding changes in the package. Kovacs even suggested at a CTAM conference that "we all need to be acting like (NBC program head) Brandon Tartikoff," that is, more like programmers who pick and choose, constantly tinkering with the lineup for maximum benefit.

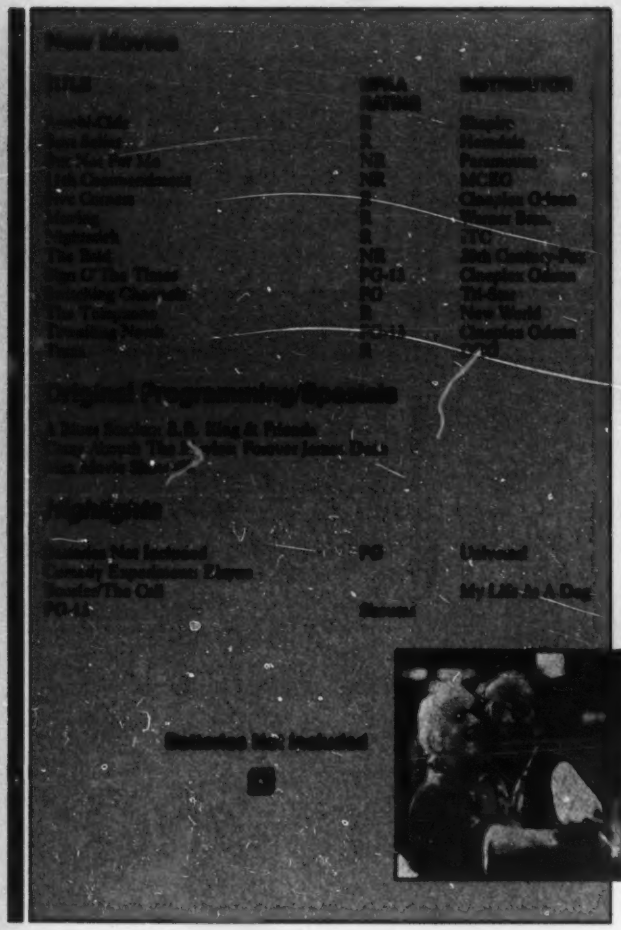
INTV's Padden agrees, but with one exception. "Brandon Tartikoff has to pay for his programming." Cable systems don't pay for broadcast network or independent station programming because of the compulsory license. They do pay copyright fees, however, when carrying distant signals.

While ratings, and how that translates into value, now means little to the typical cable operator, as the industry grows it may well become more dependent on those numbers as the advertising portion of cable revenues increase for the operator and the cable programmer.

In the future, then, perhaps Nathanson's correlation between ratings and program costs could become more of a reality. This has long been the accepted practice of broadcast stations in buying programming. Station general managers feel it should be the same when cable operators retransmit their programming. "Don't we provide all the programming for free?" says John Serrao, general manager of WATL-TV Atlanta. Serrao asserts that "every channel could be thrown off in Atlanta (by area cable operators). Why don't they do it?" The answer is simple, he says: broadcast stations represent tremendous viewer value, and cable operators are just now beginning to realize it. ■

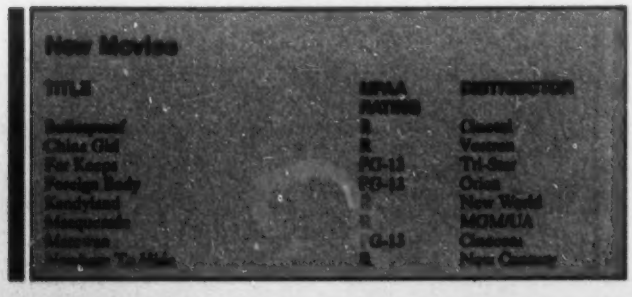
What's On The Pays/February

Cinemax



The Disney Channel

HBO



The Perfect Match	PG	Manson
The Rosary Murders	R	Sam Goldwyn
Separate Vacations	R	New Century
Someone To Watch Over Me	R	Columbia
The Squeeze	PG-13	Tri-Star
Switching Channels	PG	Tri-Star
You Can't Hurry Love	R	Vestron

Original Programming/Specials

Family Playhouse: Just A Regular Kid--An AIDS Story
One Night Stand: Judy Tenuta/Kevin Meaney
Sports Illustrated...The Making Of The Swimsuit Issue
World Championship Boxing: Lloyd Honeyghan Vs. Marlon Starling

Highlights

Batteries Not Included	PG	Universal
Full Metal Jacket	R	Warner Bros.
Glory!Glory!		

Full Metal Jacket

Highlights

Batteries Not Included	PG	Universal
Eddie Murphy Raw	R	Paramount
My Life As A Dog	PG-13	Skouras
Planes, Trains & Automobiles	R	Paramount

Eddie Murphy Raw

The Movie Channel

New Movies

TITLE	MPAA RATING	DISTRIBUTOR
Assassination	PG-13	Cannon
The Barbarians	R	Cannon
Bulletproof	R	Cinetel
The Couch Trip	R	Orion
Ernest Goes To Camp	PG	Touchstone
Firewalker	PG	Cannon
Five Corners	R	Cineplex Odeon
The Gospel According To Vic	PG-13	New Century
Hot Pursuit	PG-13	Paramount
Modern Girls	PG-13	Atlantic
Riders Of The Storm	R	Miramax
The Rosary Murders	R	Sam Goldwyn
Separate Vacations	R	New Century
Switching Channels	PG	Tri-Star
Tai-Pan	R	DEG
Travelling North	PG-13	Cineplex Odeon

Showtime

New Movies

TITLE	MPAA RATING	DISTRIBUTOR
The Adventures Of Mark Twain	G	Atlantic
The Barbarians	R	Cannon
The Boy In The Plastic Bubble	NR	20th Century-Fox
Cop	R	Atlantic
Dudes	R	Carolco
Ernest Goes To Camp	PG	Touchstone
Foreign Body	PG-13	Orion
Maid To Order	PG	Carolco
Nomads	R	Atlantic
Quiet Cool	R	Universal
Switching Channels	PG	Tri-Star
Tai-Pan	R	DEG

Original Programming/Specials

The Aspen Comedy Festival
Comedy Spotlight: Penn & Teller's Invisible Thread
A Gleason Celebration

Highlights

Batteries Not Included	PG	Universal
Best Of Showtime Coast To Coast		
Eddie Murphy Raw	R	Paramount
Planes, Trains & Automobiles	R	Paramount

Planes, Trains & Automobiles

Satellite national services

Basic services	Affiliates	Subscribers
ACTS Satellite Network	387	9,000,000
Alternate View Network	250	4,000,000
Arts & Entertainment (A&E)	2,800	37,000,000
Black Entertainment Television	1,800	21,197,000
Cable News Network	11,860	49,565,000
Cable Value Network	1,850	21,000,000
CBN Family Channel	8,303	43,769,000
C-SPAN	3,100	41,500,000
C-SPAN II	575	16,500,000
Country Music Television	862	8,000,000
The Discovery Channel	4,643	37,627,000
Eco	300	1,000,000
ESPN	9,500	50,132,000
Eternal Word Television Network	490	10,800,000
Family Guide Network	60	4,500,000
FamilyNet	54	1,200,000
The Fashion Channel	650	10,100,000
Financial News Network	3,500	33,000,000
FNN/Score	1,600	19,800,000
FNN/TelShop	1,350	14,800,000
Headline News	3,410	34,911,000
Home Shopping Network	1,413	16,074,151
Home Shopping Network II	321	5,699,732
The Inspirational Network	920	10,000,000
International Television Network	56	7,868,900
The Learning Channel	935	14,600,000
Lifetime	3,800	41,728,000
Mind Extension University	84	2,200,000
Movietime	290	7,500,000
MTV	5,220	44,433,000
Movietime	342	11,500,000
The Nashville Network	7,741	43,211,000
Network 1 USOA	N.A.	N.A.
Nick At Nite	3,395	39,600,000
Nickelodeon	6,485	43,679,000
The Nostalgia Channel	305	4,000,000
Prevue Guide	200	5,300,000
QVC Network	1,033	13,700,000
RFD TV	N.A.	N.A.
Shop Television Network	119	4,600,000
Silent Network	404	12,300,000
Superstation TBS	9,426	47,943,000
Tempo Television	827	12,400,000
TNT	1,512	23,000,000
The Travel Channel	400	11,000,000
Trinity Broadcasting Network	700	8,500,000
Univision	340	N.A.
USA Network	10,100	46,433,000
VH-1	2,300	30,000,000
Vision Interfaith Satellite Network	215	6,200,000
The Weather Channel	3,600	37,101,000
WGN-TV	11,415	24,900,000
WWOR-TV	2,575	12,460,000
WPIX-TV	858	9,678,474
Bonus/basic services		
American Movie Classics	1,500	14,500,000
Bravo	350	1,500,000
Pay services		
American Exxxtasy	35	27,000
Cinemax	3,650	5,700,000
The Disney Channel	5,000	4,000,000
Home Box Office	7,400	15,900,000
The Movie Channel	3,250	2,600,000
The Playboy Channel	526	470,000
Showtime	6,000	6,300,000
Audio services		
Cable Radio Network	49	1,556,736
Galatic Radio	84	1,050,000
KKGO Super Jazz	18	133,639
Moody Bible Institute	63	1,058,368
Satellite Radio Network	237	483,000
Seeburg Lifestyle Music	142	2,578,838
Seeburg Lifestyle Adult Contemporary	26	854,390
Tempo Sound	125	1,250,000
WFMT Chicago	170	1,259,804
Text services		
AP News Cable	185	2,500,000
AP Business Plus	54	1,400,000
AP News Plus	75	2,100,000
Cable SportsTracker	41	875,000
EPG	280	6,800,000
EPG Jr.	330	300,000
Genesis Storytime	39	1,550,000
Reuters NewsView	127	2,437,000
Computer services		
DBC/MarketWatch	462	9,200,000
X*Press Executive	457	6,100,000
X*Press X*Change	457	6,100,000

Non satellite-fed national services

Basic services	Affiliates	Subscribers
Cable Video Entertainment	190	18,000,000
Fuji Network	3	12,000
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000
Pay services		
Nippon Golden Network	5	13,600

Interactive services

Basic services	Affiliates	Subscribers
Telaction	4	30,000
Video Jukebox Network	9	268,000

Regional services

Basic services	Affiliates	Subscribers
Atlanta Interfaith	7	177,000
Bay Area Religious Channel	6	113,000
Buffalo Sabres Hockey	6	455,000
Cable TV Network of New Jersey	34	1,396,451
The Ecumenical Channel	9	170,000
KBL Entertainment Network	67	1,000,000
KTVT	417	3,600,000
Life Newsvision	35	50,000
Madison Square Garden Network	112	2,500,000
Meadows Racing Network	14	600,000
News 12 Long Island	4	532,000
Prime Cable	9	381,938
Prime Sports Network	N.A.	250,000
Prime Ticket	55	3,000,000
Sportsvision	50	1,507,270
Sunshine Network	112	1,700,000
Pay services		
Home Sports Entertainment	196	684,740
Home Team Sports	114	1,000,000
New England Sports Network	160	301,131
Prism	87	427,000
Pro-Am Sports	140	301,000
SportsChannel (Florida)	10	470,000
SportsChannel (New England)	147	1,028,431
SportsChannel (New York)	94	1,300,000
Z Channel	65	110,010

Note: Figures for affiliate/subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Cable Stats, 432 Park Avenue South, Suite 1010, New York, NY 10016.
N/A denotes information not available.

Announced services

Satellite-fed services	Expected launch
ATV: Advertising Television	TBA
CD/8: The Digital Music Network	6/89
CNBC	4/89
The Computer Channel	5/89
Digital Cable Radio	4th Quarter 1989
Digital Radio Channel	1st Quarter 1989
Interactive Game Network	3rd Quarter 1989
Kids Information Network	1st Quarter 1989
The Landscape Channel	1st Quarter 1989
Laugh TV	1st Quarter 1989
Maximum Entertainment Network	9/89
Mizlou Sports News Network	2nd Quarter 1989
Spanish TV News Network	1/89
Talk Television	1st Quarter 1989

Non satellite-fed services	Expected launch
ACTV	4th Quarter 1989
Consumer Classified Ad Network	1st Quarter 1989
Main Street	2nd Quarter 1989
On Demand/UTV TV Network	4th Quarter 1989